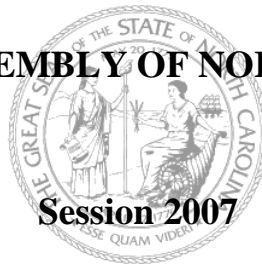


# GENERAL ASSEMBLY OF NORTH CAROLINA



## **FISCAL ANALYSIS MEMORANDUM**

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. **This is not an official fiscal note.** If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

**DATE:** April 30, 2008

**TO:** Revenue Laws

**FROM:** Sandra Johnson  
Fiscal Research Division

**RE:** Senate Bill (Unknown Edition)

<b>FISCAL IMPACT</b>					
	<b>Yes ( X )</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>
<b>REVENUES:</b>					
<b>(in thousands)</b>					
<b>State and Local</b>					
<b>Impact</b>	(196)	(200)	(204)	(208)	(213)
<b>State Impact</b>	(129)	(139)	(136)	(139)	(142)
<b>Local Impact</b>	(67)	(61)	(68)	(69)	(71)
<b>EXPENDITURES:</b>					
<b>POSITIONS</b>					
<b>(cumulative):</b>	-	-	-	-	-
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b>					
See Assumptions and Methodology					
<b>EFFECTIVE DATE:</b> July 1, 2008					

**BILL SUMMARY:** This bill draft would exempt from sales tax tangible personal property purchased with a client assistance card (debit card) issued for disaster assistance relief by a State agency or a federal agency or instrumentality. The American Red Cross is an instrumentality of a federal agency. The bill would become effective July 1, 2008, and apply to purchases made on or after that date.

**CURRENT LAW:** The State may not impose its sales tax on purchases made by the federal government or an instrumentality of the federal government. G.S. 105-164.13(17) specifically exempts sales which a state would be without power to tax under the limitations of the Constitution or laws of the United States or under the Constitution of this State. The American Red Cross (ARC) is an instrumentality of a federal agency. Therefore, sales made pursuant to a disbursing order issued by the ARC are considered a sale to the ARC and is exempt from taxation.

In the past, the ARC provided disaster assistance relief by giving disaster victims a disbursing order reimbursement form to purchase items, but in recent years began giving disaster victims client assistance cards to make these purchases. Debit cards prove more efficient, effective, and less bureaucratic for the victim and require less administrative effort and expense from ARC. However, for purposes of the sales tax exemption, there is a significant difference between a debit card and a disbursing order. The purchaser, for purposes of the sales tax exemption, is the disaster victim when a debit card is used. The ARC is the purchaser when the disbursing order is used. Therefore, purchases made with a disaster assistance debit card are subject to sales tax.

#### **ASSUMPTIONS AND METHODOLOGY:**

The fiscal impact of exempting client assistance debit cards from state and local sales and use taxes is based on data provided by the Triangle ARC. During the 2006-07 fiscal year, North Carolina American Red Cross chapters provided an estimated \$3.9 million dollars in disaster relief assistance with approximately 70 percent of the \$3.9 million (\$2.8 million) provided via client assistance cards.

Based on Moody's Economy.com inflation rates, Fiscal Research estimates that ARC will provide roughly three million dollars in disaster relief assistance via debit cards in FY2008-09. Should client assistance cards receive a tax exemption, state and local sales tax revenues would decline by approximately \$196,000 during this same period (Table1).

Table 1 provides information on the projected sales tax revenue forgone by exempting disaster relief assistance debit cards from state and local sales and use taxes. The table also accounts for state and local sales and use tax changes occurring in October 2008 and October 2009.

<b>Table 1: Revenue Impact of Exempting Disaster Relief Client Assistance Card Disbursements from Sales Tax, by Fiscal Year (in thousands)</b>					
	<b>*FY 2008-09</b>	<b>**FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
<b>State and Local Impact (6.75% sales tax)</b>	(196)	(200)	(204)	(208)	(213)
<b>State Impact</b>	(129)	(139)	(136)	(139)	(142)
<b>Local Impact</b>	(67)	(61)	(68)	(69)	(71)
* FY2008-09 estimates incorporate local and state sales tax rate changes occurring on October 1, 2008; Assumes local sales tax rate of 2.5% for three months and 2.25% for nine months; Also assumes state sales tax rate of 4.25% for three months and 4.5% for nine months					
* *FY2009-10 estimates incorporate local and state sales tax rate changes occurring on October 1, 2009; Assumes local sales tax rate of 2.25% for three months and 2% for nine months; Also assumes state sales tax rate of 4.5% for three months and 4.75% for nine months					
Source: Triangle American Red Cross Documentation of FY07 Financial & Material Assistance					

#### **SOURCES OF DATA:**

Triangle American Red Cross, Moody's Economy.com

**TECHNICAL CONSIDERATIONS:** None